Mind the Gap: Institutions and Strategic Choice in the Internationalization of UK Universities' Operations in China

1. Introduction

Institution matters! The extant literature has clearly established the institution's critical influence on organization's strategic choices in internationalisation (Ang, et al., 2015, Holmes, et al., 2013, Kostova, et al., 2008). Institutions set the rules of the game to regulate the behaviour of organizations (North, 1990). An effective strategic decision requires an organization to make sense of the institutional environment in which it is located (Young et al., 2014), and align its strategies and local operations with rules and expectations of institutions. Failing to do so would result in losing business opportunities, costs rising and even its local presence being threatened (Child, 1997). This is particularly challenging for organizations operating in international markets (Ang, et al., 2015). The institutional challenge is further amplified in a host country where institutions are in transition, such as emerging economies, in which organizational strategic choice must adapt to institutional ambiguity and changing institutions (Hernandez & Nieto 2015; Hennart & Slangen, 2015; Young et al., 2014; Meyer et al., 2009; Dunning & Lundan, 2008; Ra, 2008). The "institution void" and incomplete markets (Hoskisson, et al., 2000, Khanna & Palepu, 2010) limit international organizations from accessing to comprehensive information so as to fully assess institutional requirements. Strategic choices and operations are therefore often based on how organizations perceive institutions of host countries.

Institutions have both a form and an informal dimension (North, 1990). Formal institutions - formal rules such as laws, regulations, professional standards and procedures - are codified, explicit and often in writing, and hence are readily observed and arguably easily changed. Informal institutions are unwritten rules and non-codified standards, being created and communicated through personalized processes and enforced outside officially sanctioned channels. Formal and informal institutions are not separate, but work together to complete the institutional landscape. On one hand, formal institutions begin as solutions to problems in society and are established as the result of 'repeated games' based on the shared understanding and acceptance of social actors. Understanding formal institutions requires comprehension of the logic and rationale underlying these solutions and informal consensus, i.e. informal institutions (Holmes, et al., 2013). On the other hand, formal institutions can be the result of formalizing and legalizing informal institutions when their significance is widely recognized, e.g. the establishment of property rights which was initially secured through the informal power of the gentry, emerged to 'informal consensus' and then settled as formal institutions. When formal institutions are incomplete, informal rules are created (Helmke & Levitsky, 2004, Peng, 2003) and employing informal channels acts as an alternative strategy for organizations to achieve their goals (which cannot be achieved though formal institutions) (Holmes et al., 2013; Helmke & Levitsky, 2004). However, despite their significance, informal institutions are often narrowly studied on cultural dimensions (Helmke & Levitsky, 2004, Hitt, et al., 2016, North, 1990) (Garrido et al., 2014; Helmke & Levitsky, 2004; Hitt, Li, & Xu 2016; North, 1990), treated as ex-post factors, or residuals after exhaustively discussing formal institutional mechanisms, or just being ignored (Hernandez and Nieto, 2015).

Departing from the extant literature, we take the stance advocated by North (1990) that informal institutions are not an appendage of formal ones and go beyond to argue that it is the

interaction between formal and informal institutions that reveals that intricacies of institutional environment, which formulates perceived institution in the eyes of organizations' decision makers. Although the extent literature has established that institutions matter for strategic choices, especially for organizations operating in emerging economies (Hitt, et al., 2016, Peng, 2003), as noted by Brouthers (2013), "managerial attitudes drive decisions" and "when exploring the impact of institutional environments on decision-making, perceptions of the environment are all important" (p. 19). Through perceived institutions, organizations try to understand, make sense out of, and respond to institutional environment. The purpose of this article is to examine how the interaction of formal and informal institutions affects perceived institutional pressures at the time of internationalization, which in turn determines strategic choices in host country operations. By examining perceived institutions, we seek to provide a theoretical reasoning as to why different entry strategies and operation modes have been adopted by British universities in their internationalization to China.

2. Literature review

2.1 The interaction of formal and informal institutions and perceived institutions

Formal institutions - formal rules such as laws, regulations, professional standards and procedures - are codified, explicit and often in writing, and hence are readily observed and arguably easily changed (Helmke & Levitsky, 2004). Formal institutions are created, communicated and enforced through officially sanctioned channels, and violation has legal consequences. A host country may use formal institutions to incentivize or constrain strategic choices that organizations can take for market entry, for example, some countries prohibit wholly-owned forms of operations, but encourage non-equity cooperative arrangements, as was the case in the early stage of China's economic transition from a centrally planned to market economy. Organizations entering the Chinese market had little choice but to seek cooperation with local partners to bridge institutional gaps and overcome institutional barriers (Ang, et al., 2015, Peng, 2003).

Informal institutions are unwritten rules and non-codified standards, being created and communicated through personalized processes and enforced outside officially sanctioned channels (Helmke & Levitsky, 2004, North, 1990). Violation of informal institutions has social rather than legal consequences, and the sanctioning mechanisms are often subtle and hidden, such as display of social disapproval and loss of reputation. Many studies draw on culture to capture informal institutions (Garrido et al., 2014; Helmke & Levitsky, 2004; Hitt, Li, & Xu 2016; North, 1990). However, informal institutions are behavioral regularities that go beyond shared cultural norms (Cantwell, et al., 2010). In defining informal institutions, Helmke and Levitsky (2004) advocate for shared expectations which may or may not be rooted in shared broader societal values (culture). Moreover, informal institutions also manifest through accepted authority systems and professional norms in an industry which may not be purely related to culture (Ahlstrom & Bruton, 2010). Hence, informal institutions are defined based on three key elements: actors' shared expectations, the context in which informal rules apply, and the ways of enforcement of informal rules (Helmke & Levitsky, 2004).

Most existing research tends to analyze formal and informal institutions in a separate manner, along a continuum of 'good' to 'bad' or 'similar' to 'different' line and take a rational-choice

analysis approach with an excessive attention to formal rules. Only a few studies recognize the interplay of informal institutions with formal institutions, e.g. Ang, et al. (2015), Helmke and Levitsky (2004), and Horak and Restel (2016). Helmke and Levitsky (2004) identify four types of formal-informal institutional interactions: (a) complementary - informal institutions coexist with *effective* formal institutions, filling in gaps in formal institutions and enhancing efficiency; (b) accommodating - informal institutions create incentives to behave in ways that alter, but not directly violate, the substantive effects of *effective* formal institutions; enhancing the latter's stability; (c) competing - informal institutions coexist with *ineffective* formal institutions, structure incentives in ways that are incompatible with the formal rules, e.g. clientelism, corruption; and (d) substitutive - informal institutions seek outcomes compatible with *ineffective* formal rules and procedures, achieve what formal institutions were designed, but not routinely enforced (Helmke & Levitsky, 2004; Lauth, 2000). However, Horak and Restel (2016) reckon that the above categorization is too static, neglecting informal institutions' interaction with developing formal institutions (neither effective nor ineffective, but in transition, e.g. China). Focusing on guanxi, as an informal institution, Horak and Restel (2016) find guanxi does not perfectly fit into any one of Helmke and Levitsky (2004) proposed categories. Given our research context of China, this is particularly relevant.

Guanxi stands out because of its degree to interact with formal institutions and its influence in every aspect of Chinese life (Xin & Pearce, 1996). Guanxi is a relationship embedded in a complex social network between objects, forces, and people, and involves a chain of benefactors and beneficiaries connected by intermediaries. It implies links established on trust, trustworthiness and reciprocity between individuals and groups and can mobilize the process of institutional change, especially when formal institutions are ineffective (Horak & Restel, 2016, Xin & Pearce, 1996). Guanxi has two key components: renqing (obligatory reciprocity) and mianzi (face or social prestige). Renqing means the social norms of giving and receiving favors on the basis of mutual obligation and reciprocity. Within the guanxi network, albeit the time of payment is flexible, payment is expected and not honoring renqing carries social penalty, i.e. the loss of mianzi. The informal institution of guanxi offers a channel through which businesses can gain access to resources, facilitate transactions and solve disputes. Underdeveloped formal institutions result in an unstable environment and create a void, guanxi remains a way to achieve goals in order to overcome the voids left by formal institutions (Horak & Restel, 2016). Hence, guanxi is an institutionally driven dynamic construct as it changes the function and character of formal institutions over the course of institutional building (Horak & Restel, 2016, Peng, et al., 2008).

The relationship between guanxi and formal institutions is auxiliary (i.e. supporting formal institution building) and competing (i.e. suppressing formal institutional building), leading to both convergent (make systems evolving) and divergent (replacement or modification of the existing formal institutions) outcomes (Horak & Restel, 2016). As China making a transition from centrally-planned economy to market economy, economic systems of the command economy were dismantled, which created institutional voids and the formal institutional environment was generally unpredictable, volatile and ambiguous for businesses. Over time, government, legal, financial and economic institutions essential to a market-oriented system have been emerging, strengthened and/or legitimated. During this process, guanxi as an informal institution has brought some clarity into the uncertain formal institutional environment. It has filled formal institutional voids. It has influenced, both positively and negatively, the initiation and implementation of numerous reforms that were central to formal

institution building. Hence, the interaction of informal institutions with formal institutions can exhibit a dynamic nature. This dynamic feature is also pertinent in other emerging economies not only China, where political and economic reforms bring about formal and informal institutional changes (Ahlstrom & Bruton, 2010). Businesses have to navigate an institutional landscape of both formal and informal institutions. This interplay between formal institutions and guanxi as an informal institution in China poses even more challenges for international organizations entering the Chinese market given their liability of foreignness (Hitt & Xu, 2015).

As institutions are typically context-specific, organizations evaluate institutional environment of a country with regard to a specific business operation (Ahlstrom & Bruton, 2010, Brouthers, 2013). In an environment characterized by the lack of reliable market information, extensive state intervention in business operations, lack of effective mechanisms to enforce contracts, as is the case of China, objective evaluation of institutions is difficult and often it is the subjective perceptions of decision makers that determine strategic choices (North, 2005). The institutional uncertainties are perceived high when decision markers could not fully understand how components of institutional environment change, how the changes impact on the organization, and what response options are available to the organization (due to the lack of knowledge of response options, the lack of resources to respond, or inability to predict the likely consequences of a response choice) (Milliken, 1987). Added to the complication is also the fact that institutional constraints and enablers are not only from the country-level setting, a given professional or industry community, but also from organizations themselves (firm-specific conditions, e.g. the established reputation, resources, strategy, structure, experience etc.). Institutional pressures, thus, come from a collective and interconnected environment; misunderstanding macro- and micro- institutional expectations may lead to failure in international expansion (Roxas, et al., 2008).

2.2 Perceived institutions and strategic choices in internationalization

Uncertain and ambiguous institutional environment can mean both opportunities and threats to international organizations. The level of perceived uncertainties determines whether organizations taking a proactive or a reactive strategy (Aragón-Correa & Sharma, 2003). Proactive organizations may make higher-level of resource commitment, introduce innovative strategies, structures and processes to respond to institutional changes, and adopt preventive measures to counteract the potential negative effect of institutional changes, while reactive organizations may make lower-level resource commitment and focus on mitigating the risks associated with the uncertainties. International organization's strategic choices of entry are contingent upon decision makers' perception on institutions related to legitimacy attainment and stakeholder alignment (Hitt, et al., 2016, Roxas, et al., 2008). When organizations perceive high institutional pressures in a host market, they tend to take a lower-resource commitment mode and rely on local partners for achieving external legitimacy, whereas a higher-resource commitment mode and working in collaboration with local partners could be adopted in response to stronger stakeholder alignment. Although international organizations tend to favor standardized operations over localization to maintain consistency, synergy and improve efficiency (Peng, 2003), the degree of standardization or localization varies from organization to organization depending on aligning the responses to host country institutional environment which is subject to the interpretation of institutional expectations (Hitt, et al., 2016, Roxas, et al., 2008). For instance, a host country may

encourage international organizations to standardize operations in order to learn from new practices, and this learning process can culminate in changing formal and informal institutions in the host country over time (Cantwell, et al., 2010).

Legitimacy attainment in internationalization is linked to unfamiliarity hazards and relational hazards. The first arises from a lack of information and knowledge about the host country and the second from difficulties in managing and monitoring subsidiaries or partnerships at a distance (Hitt, et al., 2016). Compared to formal institutions, understanding informal institutions is even more challenging, especially for organizations coming from a country that is institutionally distant from the host country. Different norms, values and beliefs can pose considerable challenges in the process of communication and management of the operations in the host country. To conform to informal institutions and gain legitimacy, organizations need to behave in line with professional groups' expectations and norms irrespective of economic rationality (Ahlstrom & Bruton, 2010, Ang, et al., 2015). Inter-firm relationships among partners from institutionally distant environments were subject to governance difficulties due to the paucity of shared cognitive and normative frameworks (Abdi & Aulakh, 2012; Hitt, Li, & Xu, 2016). Decision makers of organizations from a home country with a mature institutional environment have internalized market-based competition as the basis of organizational strategies. When facing an immature formal institutions and different informal institutions in an emerging economy, such decision makers are often challenged to change their inherent cognitive beliefs and values, adapt to and conform to a host environment (Peng, 2003). For example, political connections may come to be a very important source of a firm's competitive advantage in emerging markets, and hence do not have the same negative connotations in China that it does for Western firms (Young et al., 2014). Therefore, business practices established in the developed markets need to be adjusted when operating in developing economies (Meyer & Peng, 2005).

Oliver (1997) suggests that firms can develop institutional capital to enhance the use of their resources within their institutional environment. Organizations can increase their strategic choice by immersing themselves in political networks (Rodrigues & Child, 2003). Through creative organizational designs, some organizations can manage unfavourable institutional effects on their operation better than others (Regner & Edman, 2014; Lau et al., 2002). Hence, organizations are able to protect their interest through responsiveness to external demands and expectations. Although there are a variety of alternative institutional arrangements to conform to in a given environment (North 2005), introducing and implementing new operational forms to gain legitimacy may encounter different challenges at formal and informal institutional levels (Xu & Shenkar 2002). On the one hand, this requires organizations to have the ability to see beyond the formal and informal institutional conditions of their surrounding host country environment to recognize institutional differences and identify opportunities. On the other hand, the organizations also need to understand the audiences' assumptions and beliefs what the organization could legitimately do, and transfer resources into the local operations (e.g. knowledge, assets or practices gained from operations in diverse institutional settings) (Regner & Edman, 2014). In operations, implementing a new organizational mode entails strategic decisions of the extent to which a mode of operation is to be standardized (implementing home standard operations, being consistent across borders) and localized (adjust the home standard operations to adapt the local institutions) on which organization could leverage to respond to the perceived institutional pressures. However, studies on how organizations strategize in operations to manage the effect of perceived institutions to survive and succeed in host markets is

underexplored. This study will take UK universities in China as an example to examine how interaction of informal and formal institutions affect organizations' perception of institutions and how the UK universities strategize their operations in China to responses to different perceived institutional pressures - a gap in the existing literature that this paper seeks to fill.

3. Methodlogy

3.1 Research design

We adopted a qualitative case study research strategy (Yin, 2009) to answer our key research question. We followed Eisenhardt's (1989) theoretical sampling and Buck's (2011) case selection process. First, we defined the sample frame - a total of 60 UK universities operating in China and conferring UK degrees[1] (QAA, 2006). Second, to ensure the representativeness of our sample, we used a stratified sampling to draw samples from two different types of international entry in China[2]: equity and non-equity mode. The former only covers equity joint venture (EJV) - a separate legal educational entity, established by two HE institutions from China and a foreign country, as wholly-owned subsidiary (WOS) is not permitted in China. There are two UK-invested EJVs. Non-equity modes are strategic alliances between a UK and a Chinese university with operations on the campus of the Chinese university. Non-equity modes accounted for 98% of international HE operations in China. They can be classified into single-based (SB) mode where a UK degree program is entirely taught in China, and dual-based (DB) mode where a UK degree program is taught in both China and the UK. DB can be further classified into dual-based validation where the program taught in China was designed by the Chinese university and validated by the UK university (DB-v), and dual-based franchise where the program was designed and franchised by the UK university (DB-f). In terms of the level of resource commitment, strategic choice ranked from high to low is EJV, SB, DB-f and DB-v. Finally, we ensured that each case selected must have been in operation for at least two years to allow us to assess the operations. In total, 10 cases were carefully selected based on theoretical justifications (Eisenhardt, 1989): two EJVs, two SBs, three DB-fs, and three DB-vs (see Table 1).

Insert Table 1 here

3.2 Data collection

We conducted a pilot case study of a single-based operation, before finalizing the final interview schedule. The final case study was conducted by the first author through face-to-face interviews in 2008 and 2009. Follow-up interviews were conducted wherever necessary to keep track of any further development until the end of 2015. Secondary data from publications were also collected to triangulate and complement the interview data. Each case was approached from both China and UK sides to take into account the corporate and the subsidiary perspectives.

[1] Campus-based face-to-face learning modes only. Distance learning was excluded, as the Chinese government does not recognize a degree obtained from a China-foreign cooperation through distant learning (MoE, 2003).

[2] In 2003, the Chinese government deregulated the HE market to allow foreign universities to enter the Chinese market, but universities wholly-owned by foreign institutions were not allowed.

Within each case, we used purposive sampling (Lincoln & Guba, 1985) to identify and select informants who were most knowledgeable about the international operations (Saunders, Lewis & Thornhill, 2009), including Chancellor/Vice-Chancellors (VCs)/Pro-Vic-Chancellors (PVCs) (UK) or President/Vice President (China), Deans/Heads of Departments (HoDs), project directors, coordinators, and academic members of staff (see Table 1). Students were also interviewed where possible. The number of interviews for each case was determined when theoretical saturation was achieved - at the point when additional interviews failed to dispute existing or reveal new categories or relationships, indicating a point of diminishing returns (Eisenhardt, 1989; Glaser & Strauss, 1967; Strauss & Corbin, 1998). In total, 45 interviews were conducted. The interviews were about 1.5 hours each, all recorded and transcribed.

Interviews were semi-structured, and questions focused on institutions and organizations' strategic choices in internationalization in the areas of: a) motives of internationalization, and the formal and informal institution constraints and enablers; b) rationales of chosen modes and the role of the interaction of informal and formal institutions and the balancing of perceived institutional pressures; and c) the changes of institutions and their impacts on the development of local operations.

3.3 Data analysis [Xiaoqing, I have not read through this section.]

Following Eisenhardt's (1989) and Glaser and Strauss (1967), we adopted three key steps to analyze the data (see Figure 1). First, we use informant-centric analysis (first-order concepts) to code formal and informal institutional constrains and enablers and their interaction effects. This step adhered faithfully to informant terms, codes and categories (Strauss & Corbin, 1998). We sought similarities and differences among the codes, and give each category a phrasal descriptor (Gioia, Corley & Hamilton, 2012). Constant comparison was employed to allow us to distinguish differences between the emerging categories and those in the existing literature.

Second, we developed researcher-centric concepts and themes (second-order themes) to discern patterns of perceived institutional pressures (tensions between standardization and localization). We used within-case analysis and cross-case comparison (Eisenhardt, 1989) to view the first-order concepts at a higher level of theoretical referents (second-order themes) (Gioia et al., 1994). This step revealed relationships between interaction of formal and informal institutions and perceived institutional pressures (standardization and localization). After examining category nestings and overlaps (Clark et al, 2010), three second-order themes emerged (see Figure 1). In this process, constant consulting the literature helped us capture similar or different themes.

Third, we assembled our three second-order themes into aggregate dimensions of local operations to examine patterns of strategic choices to respond to the perceived institutional pressures (managing the tensions between standardization and localization). We first zoomed into each case to capture key arrangement of local operations in managing the tension and constantly compared cases to identify patterns of solutions. We then examined the overarching relationships among interactions, the patterns of perceived pressures, and strategic choices to gain confidence that our analytical framework - an enhanced theoretical model (institutions and firm' strategic choices) was consistent with the internationalization experience of both the UK universities and their Chinese subsidiaries, following the Clark et al.'s (2010) advice on the consistency between theoretical development and the experience of those living the experience. To ensure the validity of the data and avoid interpretative bias, the data analysis process was regularly communicated with experts through presentations and

discussions of conference papers. Initial findings were also presented to the participant universities, and their feedback was incorporated to validate the research findings.

Insert Figure 1 here.

4. Findings

4.1 The evolution of institutions in the Chinese HE sector

Chinese HE sector was interrupted and many universities were not led by intellectuals during the 'Cultural Revolution' between 1966 and 1977, which created formal institution voids and a change of informal institutions as university education became less valued. Following the re-introduction of the university examination in 1977, the HE sector had been developed very quickly in the direction of 'four modernizations' and the general institutional environment had become more permissive for university education, nonetheless remaining rigidly centralized with the state controlling many if not all aspects of university operations including the appointments of senior leaders and academic staff, curriculum, teaching resources such as textbooks, and the establishment of departments and institutes. Late 1990s marked a monumental shift in HE institutions with the government launching a program of massive expansion of universities. The number of university graduates increased by 10-times between 1997 and 2017, reaching 8-million.[3] Alongside substantial increase of state investment in universities, the university financing model also moved from full state subsidy to marketization with sponsorship from non-state forces including students, companies and other organizations. Universities gained increasing institutional autonomy. Private and foreign education providers were permitted to operate in the Chinese market.

Among the major legislative and policy guidelines on HE reforms issued, what is particularly relevant to UK universities' internationalization are: *1995 Interim Provisions on Chinese-Foreign Cooperation in Running Schools (CFCRS)*, *2003 Regulations on CFCRS* and *2004 Implementation Measures for the Regulations on CFCRS* (see Table 2). *1995 Interim Provisions*, as the first legal document, signaled a significant formal institutional environment change shifting from an informal, incidental, laissez-faire stage to state-guided market-oriented. Nevertheless, it did not specify what a program-based operation looked like, how foreign universities operated it and so on. Its focus was very much on vocational education and HE was not given priority. *2003 Regulation* is the first one allowing foreign universities to operate in China in an EJV mode. The formal institutional change in HE was to align with China's commitment to WTO (entered WTO in 2001), to meet the increasing demand for highly qualified human resources, driven by rapid economic development and globalisation. The 2004 *Implementation Measures* clarified that SBs were permitted. Incremental changes in formal institutions have continued after 2004, as detailed in Table 2, demonstrating a dynamic institutional environment moving from a systematic, structured, regulated but turbulent to a more standardized, strictly regulated and relatively stable HE market in China.

During the process of formal institutional building aiming to provide judicial protection and reduce ambiguity, informal institutions have also changed. Social norms and mental models of Chinese customers were changing from a closed, planned economy dominated to a more

[3] http://theconversation.com/inside-the-worlds-largest-higher-education-boom-74789

open, market economy oriented. Western culture was understood widely and deeply *'After 20 to 30 years' implementation of reform and open policy, culture difference has not been an important issue, generally speaking, the place of B (a city where EJV2 locates) is very open* (PVC, UK, EJV2).' The shortcomings of the Chinese HE were recognized and customers were more desired to know and learn from the world-class universities.

Insert Table 2 here.

4.2 The interaction of formal and informal institutions and perceived institutions

Facing the same formal institutional environment, not all UK universities made the same strategic choices for entry. Nine UK universities in our sample entered China at around similar time, i.e. between 2002-2004. Five adopted DB, two SB and two EJV. An exception to this was the case of DB-v3, which entered after 2003 with a low-commitment arrangement, but was not solicited by the MoE. The two SB cases were initiated before 2003 at a time when the formal rules on SB were unavailable. SB1 was the first China-foreign cooperation on a SB mode issuing dual bachelor degrees by the Chinese and the UK university, whereas SB2 issued a single UK degree at the Masters level. In the case of EJV1, a proposal was sent to the MoE a year ahead of the 2003 *Regulation* when EJV university was a new concept and there were no clear formal specific rules on it. EJV2 was initiated before the issue of *Implementation Measures*, also meaning to break the traditional education provision in China and a Western education model taking root.

In the case of EJVs, the UK universities were aware of the ambiguity and uncertainty of institutional environment in China, but they saw these as opportunities and proactively engage in internationalization in China.

'Before we signed this cooperative agreement with (the British) University in March 2003, we did consultations with a lot of experts including lawyers and university professors; but we were told there were no specific regulations to abide by (for operating on an EJV mode) (Chairwomen of the Chinese partner, EJV1).'

'China is an important country we need to know about, to interact with, to engage with. This (to form an EJV) is a very solid, practical and concrete way of doing it (DVC, UK, EJV2).'

Guanxi of the University's senior management team (SMT) played an important role in helping pursue the organizational goals. The useful ties and contacts the established Guanxi brought in (initiated from personal links of a Chancellor in EJV1 and a PVC in EJV2, both are of Chinese-origin) created a platform where the UK side could exchange for dependable information about the partner and the host market. Some of the critical information was unavailable in the market and through formal channels. More importantly, the key actors who knitted the informal network, were reputable and highly regarded in China. They initiated talks with government officials (interact with formal institutions) to help break through formal institutional barriers. They helped convince the Chinese government how a new mode of operation was operated in a way which could meet the need of and contribute to China's formal institutional reform and rapid economic development. This enabled the UK universities to secure business opportunities not widely opened to foreign universities.

'The Chair of our Chinese partner used her personal relationship, arranged a lot talks with the local and central governments .... Our Chinese Chancellor, based on his Guanxi,

reputation, not only developed talks with central government officials himself, but also arranged us to meet with central and provincial government officials. The information we got from these talks was unavailable in the market hence particularly critical before the 2003 Regulation was issued. The support we received made us confident to set up a JV university (PVC, UK, EJV1).'

'... to address to the Chinese government why this university (EJV) is worth building challenged us. However, our PVC knew how to approach the question. He understood the Chinese context in a way that we wouldn't. He did a lot of explaining on what we are about to Chinese authorities. Without that kind of intermediary, we couldn't have got far (DVC, UK, EJV2).'

The interaction helped better interpretation of the ambiguous formal institutional environment for the UK side, e.g. the government's expectation from the China-foreign operations in HE in China had been changing from capacity building to quality improving. The government had become more selective and expected renown foreign universities to invest high quality educational resources in China. The two UK universities' prestigious brand name, an innovative method to ensure quality, and a demonstrable commitment helped them gain government support, not only in term of favourable institutional environment changes, but also finance, land, and resources.

Therefore interaction helped the UK side have correct understanding of institutional expectations and made them confident to implement a high commitment mode, a preferred one for organizational interests and stakeholder alignment. The two UK universities had the highest ranking compared to others examined in this study. An EJV with ownership right helped maintain and enhance the established reputation in the global market through the consistent quality education delivered across borders.

'This is our second international campus, offering our degree. To maintain the university's reputation and ensure the consistency of the operation, the same quality insurance system is applied there, and staff were seconded from the UK with continuous links (PVC, UK, EJV1).'

An EJV mode which allowed the standardized UK HE to be implemented overseas also satisfied home institutional requirement, e.g. the QAA (Quality Assurance Agency for Higher Education, UK, conducts reviews to secure academic standards and quality in all internationally delivered UK HE).

In comparison to EJV, the two UK universities employing SB mode (joint programs) felt high risks to operate on an EJV mode resulted from perceived high institutional uncertainties, but they did see market opportunities and took a proactive strategy by adopting an entry mode that was new to the Chinese market and contained limited risks to their organizations.

'*Strategically, it does not make sense. Why should we be people who are spending money getting into a campus or agreement on fixed assets in an overseas location? I believe that overseas investment causes various problems due to the potential changes at that premises for international, political or economic reasons (PVC, UK, SB2)*.'

'When we started to apply to the MoE for the approval of this mode of operation, the Implementation Measures for the Regulation on Chinese-foreign Cooperation in Running

Schools were not issued, so we had to draw on existing regulations and documents that are relevant e.g. the Regulation on Chinese-foreign Cooperation in Running Schools, the Education Law, and the Higher Education Law of the People's Republic of China, to design our project (Head of International School, SB1, China).'

However, these documents did not specify how to operate a particular SB mode, and the UK universities relied on Guanxi to help achieve internationalization goals. Similar to EJV cases, Guanxi was employed to interact with formal institutions but at the faculty level developed by Deans of the responsible faculties from both sides.

'*There was a strong personal relationship developed between me and the Dean of the faculty (of the Chinese university), and based on that, confidence grew*' (PVC, UK, SB2).

'A lot of meetings with MoE officials were arranged through informal relationship developed by the Dean of our Chinese partner. We shared with them what we (and our Chinese partner university) expect to do, how our cooperative project looks like. We received great support from the MoE. The deputy director of the Department of Cooperation and Exchange at the MoE also met us. The MoE attached great attention to our project, and provided guidance and advice on how to work on this mode (Director, responsible department, SB1, UK).'

The Chinese government expected foreign universities to work on areas that were of urgent national need to address weakness in China and this could be built on the UK university's expertise in some advanced subject-specific areas at the department level. This message was transmitted to the UK universities. The two universities though had lower ranking than those in EJVs, they had strong reputation in specific subject areas, e.g. the Department of Electronic Engineering ranked 13th in the country out of the 132 institutions in the RAE exercise in 2008[4] in SB1, whereas the UK university in SB2 was famous for International Trade and Finance disciplines. The two Chinese partner universities were also leading in these two areas respectively. These enabled the joint programs built on both-side's strengths. Therefore, the perceived high institutional pressures drove the UK side to reject a JV mode, but to pioneer a new mode with lower commitment than an EJV, to achieve their internationalization ambition in China.

UK universities adopted DB modes perceived extremely high institutional pressures, passively reacted to the internationalization into China. The UK universities in this group entered China earlier than those in EJVs and SBs, and the earliest dated in 1996. Guanxi was established between two sides through the introduction of an agent or through a previous employee incidentally. The lack of well-established informal institutional channels at senior levels was not conducive to the key decision makers' understanding of the formal and informal institutions in China. This drove them to rely on the Chinese partners when making decisions.

'This project started in 1996 when international cooperative projects were hardly found among UK universities. I started my work as a lecturer here (the UK university) in 1995, and one of my classmates who was working at T (the Chinese partner university), who is now the deputy president, approached me. But, I was not responsible for any decisions, I just worked

4 The RAE 2008* (source: http://www.rae.ac.uk).

as a middle woman, and helped arrange them to meet our managers. … At the beginning, our Vice-Chancellor doubted this, and he thought there would not be many students, as he perceived that Chinese people could not afford this. So their visits (from the Chinese partner university) were not well received by our university (Professor of Information System, who is Chinese, UK, DB-f1).'

'He (the Chinese classmate working at the Chinese partner university) learnt during his training in the Central Communist Party School that the HE market in China would be liberalized and opened up. Their university had cooperated with an American university on a 2+1 model. He wanted to do the same with our university. So he proposed this mode to us (Professor of Information System, who is Chinese, UK, DB-f1).'

A low commitment mode was also perceived suitable by the UK universities due to organization-specific constraints. The UK universities in this group had lower rankings than the UK universities with EJV or SB modes. They were relatively less competitive at home and the home market is fiercely competitive due to demographic changes resulting in lack of market growth potential (e.g. the 18 year old population in the UK was projected to decline by 16.2% between 2009 and 2020 and 14.1% in the EU countries, GAD, 2007) and challenges from foreign universities, such as universities from the US, Australia, Canada and the EU countries courting students with substantial financial aid package and/or cheaper tuition fees than the UK universities. Lower-ranked UK universities were forced to seek alternative growth strategies. They might be in the third tier at home, but could present themselves as having higher status overseas by cooperating with prestigious local universities. The first mover advantages, plus increased reputation in a global market would mitigate their weak competitive position in the home market. A low committed mode was hence preferred to be used to test the uncertain market and the partnership.

'*Our strategy is to develop with a small number of good partners, so it is not just about going for growth and attempting to get a lot of money. We want to have partners who can help us build our reputation'. (Director, UK, DBv2)*

'*We will not do this for nothing, there is cost involved in it. We need students, so we recruit students where we can find them. The beauty of the 2+1 is, once they (Chinese partner) recruited students, you would be very confident that they would come to you* (Coordinator, UK, DB-f2).'

4.3 Perceived institutions and strategic choices of mode of operations

Corresponding to four entry modes employed in UK universities' local operations: EJV, SB, DB-f and DB-v, the core elements (teaching, research, and management) and peripheral elements (e.g. physical campus, library, facilities, employment or placement services) were standardized or localized to different degrees in order to manage the perceived pressures, as detailed in Table 3 and 4.

Indeed, the perceived institutional pressures on the UK side to implement the first one and two EJVs were high, as a full-fledge university exposed the location operations (core and peripheral) to a wide range of institutional settings and stakeholders and no established models to learn (JV1 started from business management, and saw China campus as the baby of the UK university; JV2 focused on science and technology, and treated China campus as a combination of two systems, to develop its own features). However, the interaction between

Guanxi and formal institutions helped the UK side better understood the government's expectations, needs in the Chinese market and customers. For example, to a certain extent, the UK side knew that the Chinese government expected an EJV to bring in the authentic UK education (standardized) on which the government can draw to improve the Chinese education and the formal institutional environment in HE. At the same time, the Chinese governments (central and local) also required an EJV to adapt to local market needs (e.g. develop research that was urgently needed in China) and regulations (e.g. include some compulsory Chinese modules in the teaching). Therefore, the interaction helped the UK side prevent conflicts with local governments and other stakeholders in operations. This helped relieve the perceived institutional pressures. The interaction enabled the UK universities to act innovatively in managing the perceived institutional pressures.

To manage the perceived institutional pressures for standardization (bring the authentic UK education in China expected by Chinese governments, customers, QAA, and UK universities themselves), *teaching* was 100% standardized by deploying long-term UK secondees onsite in EJVs.

"It is crucial that staff are dominantly ours (UK secondees). They carry our university's DNA, and assured that we have academic control." (PVC, UK, JV1)

However, 100% UK standardized teaching entailed high costs in terms of paying secondees UK-standard salary, plus 30% expatriate fees, travel expenses, and the relocation of the secondees' families to China. A 1/3 mixed structure in human resources as a long-term strategy was discussed through the interaction and employed in operations (1/3 seconded from the UK university; 1/3 internationally recruited on the UK university's standards; and 1/3 from the Chinese partner, who only worked on the foundation program in Year 1 plus administration work). This one-third contribution approach was later reflected in the *2003 Regulation*.

The arrangement of long-term secondees onsite not only guaranteed the teaching quality in delivering the UK standard programs, but also helped to manage perceived adaptation pressures (e.g. to respond to market needs). For example, in EJV2, the UK secondees provided expertise to develop new programs, one of them was on Chemistry to meet the needs of UK pharmaceutical companies operating in China. To respond to the perceived adaptation pressures of including compulsory modules in a UK degree program delivery and at the same time maintaining the authentic UK education (foreignness) the length and structure of a UK academic program were adjusted in both EVJs and in SB1(where a dual degree was issued in China).

'W*hile keeping the standard of our degree programs identical with that in the UK, we adjusted that a UK degree program will be delivered in four years in China rather than three years (original pattern in the UK) in order to include compulsory modules in Year one'* (Director for Transnational Education, UK, JV1).

While the organization-specific conditions (no Guanxi at university senior level, department level initiative) constrained the UK side to make great organizational changes to internationalize to China, the perceived institutional pressures to engage in an EJV mode were high. In addition, the UK universities in this group initiated their entry a bit earlier than those in EJVs, e.g. SB2 started in 2002 during which the formal institutional environment was less transparent than that after 2003.

'Our Chinese partner already has an excellent campus. You know how long the political process in establishing a campus in China is. If your Chancellor is a Chinese who has strong consciousness to the scientific community in China at a national level, you may want to establish a campus. However, you may not be able to take any money from that campus, you might find students to complain bitterly about the quality of the campus, you might find out local competitors who do not like having a campus (EJV) in their particular setting, or you might find there are sort of political or economic issues that you want to resist' ((PVC, UK, SB2).

However, the interaction between Guanxi and formal institutions helped the UK side to explore alternative ways in operations to manage the perceived institutional pressures while the scale of the local operations shrunk from focusing on an EJV campus to one or two programs. For example, an affordable way to manage the perceived institutional pressures for standardization was discussed, and the UK side used fly-in/out UK staff instead of long-term stay secondees to teach the core part of a UK degree program in a block structure (intensive teaching of 1 or 2 weeks for a module, accounted 50% of teaching. It was difficult for students to digest the intensively taught content, the Chinese partner fill up the rest 50% teaching hours to assist the learning. The interaction also made the UK side know that, in a SB mode with a dual degree issued in China (SB1), compulsory Chinese modules must be included; to meet students' demand (e.g. to prepare for the national entrance exams for doing postgraduate study) additional necessary Chinese modules in the final year were also added. To adapt to market demand, management, and law were added to the UK's telecommunication and e-commerce degree programs respectively in SB1. However, compared to EJVs, SB operations incurred much less costs of standardization. Same as that in EJVs, the interaction facilitated the formal institutional changes, e.g. the formulation of the *Implementation Measures* in 2004 drew on some of the practices employed by the first China-foreign SB operation.

Notably, in DB modes, the perceived high institutional pressures by the UK universities remained no change due to the lack of established Guanxi and interaction with formal institutions. The UK universities in this group initiated their entry to China much earlier than those in SBs and EJVs. Although the first legal document *1995 Interim Provision* was issued, signalling a significant formal institutional environment change, how to operate a UK program in China was not clearly explained. Social norms, customers' mental models were still dominated by the effect of a closed, planned economy although evolving towards a market-oriented institutional change. The UK universities perceived high institutional pressures due to the difficulties and lack of channels to understand the formal and informal institutional expectations. The perceived high institutional pressures deterred the UK side to work on a high commitment mode. Teaching was hence 100% taught by local tutors. In DB franchises, the UK side tried to standardize the local operations by providing lecture slides and teaching materials to local tutors. Local tutors were also inducted to the UK style of teaching through training, attending model lectures, and visiting the UK to shadow the module leader's teaching. However, managing the perceived pressures for standardization was challenging and the consistency in delivery remained a concern in DB franchises.

'The challenge has been ensuring that the students get an equivalent education in China as they do here (in the UK). That means to ensure the members of staff in China teach 100% in English. There is a danger, as we know, that is going on. If a presentation is given in English

by members of staff in China, when students ask questions, teachers will speak Chinese rather than English to explain in more details (Associate Dean of Department, UK, DBf2).'

Notably, maintaining standardization in DB franchises was even more challenging when operating on programs required the same tacit understanding of the UK materials between local tutors and the module designers in the UK.

'We are very good at art, but it is not easy to do with this model. For art, you cannot teach just with notes, you need to have the same thinking and the way you look at arts should be the same as the program designer, so finding the right person to teach is more difficult than other programs, like business (Head of China Management Centre, UK, DB f2).'

In the DB validations, where the perceived institutional pressures reached highest among the investigated cases, the UK side turned to the Chinese partner universities in terms of design and delver the program. The UK side provided teaching slides but did not pay attention to whether the local tutors used it or not. Therefore, the cost of operations in the DB modes was the lowest among all the modes employed.

As for *research*, the interaction enabled the UK side to understand the institutional pressures for standardization (e.g. not only the seconded UK staff needed to continue their research; research students also expected to access authentic UK resources; international companies demanded world-class research) and localization (local government and industries expected to solve local problems) and hence the two EJVs placed a great emphasis on research, aiming to develop into research-led institutions. Both EJVs set up research centres, where research expertise brought by the long-term secondees was integrated with that of the local partners. Moreover, JVs' research also focuses on local needs. For example, EJV1's research on air pollution, sustainable energy and innovative industry technology was of significance to densely populated countries like China and EJV2's on cutting-edge nanotechnology, new materials, 4G wireless technology and metabolic syndrome drug research was highly desirable in a developing market.

However, unlike in EJVs where a formal structure (e.g. research centres and joint projects and PhD supervision) was in place, research was not given priority in SB. Research links in SB1 and SB2 were informal, relied on staff's own initiatives. Although the Chinese partners expressed the interest in research collaboration, teaching was seen as the main operation by the UK universities. Research was not on the agenda in the DB operations.

In terms of *management,* the perceived institutional pressures came from a wide range of institutional settings related to academic and non-academic issues. For example, the pressures for standardization to meet the government's expectation (learning from the authentic UK HE), to maintain the internal consistency (quality assurance across borders between the parent and local operations); the pressures to adaptation to formal (e.g. no clear rules on profit repatriation, student recruitment to follow national entrance exams), culture related issues, e.g. doing business in China, the local partner's different management styles, customers' different learning styles and so on. However, interaction between informal and formal institutions offered the UK side opportunities to better understand institutional expectations.

'I was in China responsible for quality insurance. The Chair of our Chinese partner university used her Guanxi to introduce me to meet with relevant government officials. So I

have a lot of interaction with Chinese governments on how we assess quality of a university. They (MoE) did not just send us their forms to fill in, instead asking that this is the criteria we have for assessing the quality for a university, what you think. I understand that they are looking at what we want in our offering particularly and thinking to establish it in China. So, to certain extent, we just go to China and put our British things in China (Seconded President, UK, JV1).'

To warrantee a standardized UK academic systems was implemented in China campus, the UK side seconded senior management and key functional personnel to their JVs in China. In JV1, the first 72 professors were UK academics, helping to build teaching and research capabilities. JV2's key functional areas, such as leaders of academic faculties, administration, human resource, financial management and quality control were also filled by UK staff. At the senior management level, the former Chancellor of the UK university in the case of JV1 and the former Pro-Vice-Chancellor of the UK university in JV2, both of Chinese origin, were assigned as the first president (JV1) and first Vice-president (JV2)[5]. They played an important role, not only because they understood the UK and Chinese HE system and culture, but also they brought in Guanxi and enabled the interaction between Guanxi and formal institutions which helped the UK side make appropriate strategic choices.

In SB operations, the standardized UK mechanisms (i.e. external examiners, an examination board, second marking, and student staff liaison committees that were absent in a normal Chinese university) was implemented. While the difficulties to make organizational changes to deploy UK staff in the operation, the daily operations were carried out by the Chinese partner university, and the UK side remotely monitored the operations on-line through Skype, email, video conferences. Notably, Guanxi enabled trust to be developed between two sides and hence the UK side trusted the Chinese side to do so. Joint committees (Steering, and Academic), where members from two sides met twice a year, were established to governed the operations. In contrast, in DB operations, where the UK side perceived high institutional pressures, operational responsibilities and daily duties of the Chinese operations were left to the Chinese side. Quality was controlled through the designated program coordinators in the UK who visited China at key points. There was knowledge flow from the parent university to the local operation and virtual communications between local tutors and module leaders in the UK, e.g. in DB franchise operations, but mainly focusing on understanding the shared teaching materials.

The separated management made the DB mode of operation suffer from institutional changes. For example, students needed a Visa to move to the UK. The tightened Visa policy changes in 2004 due to a tragedy in the UK almost ruined the operations of one of the DB cases.

'The incident happened in 2004, twenty-one Chinese cockle pickers died, hence we had problems with visa applications in the summer of 2004 for the students coming to the UK. That year, there were 35 students recruited for the 1+1 project, but almost all were rejected for the Visa, and some students failed for several times. Since then, the project was coming down, there were 21 in the following year, some of them still suffered Visa rejection, in the next year followed there were only 3 students (Project Director, UK, DB v2).'

[5] The president or a legal person of a JV university in China must be a Chinese citizen as required by the MOE (2003).

To respond to the perceived institutional pressures for standardization (to have a standardized English teaching and learning environment by students, partner university, and UK universities themselves) and localization (non-academic aspect, e.g. logistics; students' eating and accommodation habit), *peripheral* services in the two EJVs were provided in line with the UK provision but adapted to local needs where necessary.

'As far as it is possible, the provisions of services are similarly run here. It cannot be exactly the same, there are differences, e.g. we have a very big sensible counselling service in the UK, but it is not the core provision yet in Chinese universities. So differences exist but depending on what areas, other examples like, hall residence is slightly different, the food is different … Most of models, we call quality manual that sets up everything about the operation of our university (UK parent), from regulation of the students, the process of student applications, how students are assessed to complain procedures, are mirrored our university (UK parent), so all the academics there know the 'bible', or we call it manual.' (Assistant Director for Transnational Education, UK, JV1).

In addition, the two JV campuses were constructed either to mirror the UK *campus* (JV1) or was based on the UK side's briefings (JV2). Both campuses recruited their own international students, built English libraries, and shared on-line academic resources as well as career information with the parent universities. To contrast, all the other modes operated on the existing campus of the Chinese partners. Limited UK features were presented in SB modes, e.g. English library, while little UK inputs were reflected in DB modes.

Relatively, the DB cases suffered from inappropriate understanding of formal and informal institutions. The formal institutional environment in China became more transparent and regulated, e.g. the MoE started to re-evaluate all existing China-foreign HE collaborations in 2007. As a result, the operations in four out of six cases in a DB mode were either to terminate (due to the visa policy change, or did not pass the re-evaluation) or the progression route was changed to conform to the stricter policies.

Insert Table 3&4 here.

5. Discussion

By empirically examining UK universities' internationalization in China, this research reveals how the interaction between formal and informal institutions affects organizations' perceived institutions, which in turn determines strategic choices in host country operations, as summarized in Figure 2. Our findings contribute to the institutional theory and international business in three main ways.

First, our study advances the understanding of how formal and informal institutions interact in the context of the internationalization process. By doing this, we bring informal institutions to the forefront, departing from the tradition of either overlooking informal institutions or studying informal institutions as ex-post factors in support of formal institutions (Hernandez and Nieto, 2015). Although scholars have noted this shortcoming (North, 1990), research has not caught up in the past two decades. Our findings reveal that informal institutions directly influence organizations' strategic decision, but also work with formal institutions to complete

the institutional landscape that shapes organizations' strategic decision and operations in a host country – a missing piece of the puzzle in existing literature (Ang et al., 2015; Holmes et al., 2013).

In particular, our findings showed that informal institutions, particularly Guanxi (as discussed by Wang, 2000) knitted by key personnel in the organization and its partner in a host country proactively interacts with formal institutions which helps organizations break through institutional barriers to achieve internationalization ambitions. First, the interaction helped not only clarify formal institutional ambiguity but also catalyze the development of formal institutional environment (e.g. legal procedures) where a radical new mode of operation could be allowed to implement. This implies that the interaction could help initiate a favourable formal institutional environment change. Second, the interaction helped the UK side gain important information that could not be acquired through public channels, e.g. it enables the UK side understand the local governments' expectations and requirements, which helps avoid conflicts with institutions in operations. Finally, interaction helped convince government officials, achieve their understanding and support, e.g. raise capital, and enforce contracts. In return, interaction brought in great value to the UK side to operate in China with institutional voids.

In contrast, in the cases where Guanxi was not well established, the lack of interaction with formal institutions deteriorated the UK side's unfamiliarity, and difficulties in understanding, and conforming to institutional environment. Therefore, findings reveal that, informal institutions, e.g. reflected in Guanxi could help organizations compensate the weak formal institutions in China to achieve organizational goals, but in the condition when it interacts with formal institutions, particular when implementing a radical new mode of operations, e.g. and EJV or SB, which advances the existing literature (Wang, 2000; Peng 2003). Moreover, findings reveal that the level of the established Guanxi, either at the organization or department level, determines the effect of the interaction, in return, drove organizations to make different strategic choices of entry strategy and mode of operations. Indeed, actors at a senior management level within the organizations are more sensitive to changes in environment that may affect organization's interests, preferences, and choices of strategic behaviour (Chang, 2011). They tend to develop and use Guanxi for the organization's best interest; hence, their strategic behaviour in managing Guanxi would more significantly affect organizational strategies than others who are at lower level or outside the organizations (Chang, 2011).

Second, our findings contribute to the understanding of how perceived institutional environment that influence organization decisions, which confirmed with Brouthers (2013). This explains why UK universities, entering the same market and facing the same macro institutional environment changes, selected different modes operating in China. On the one hand, the organization-specific conditions can affect the decision makers' perception of institutional pressures and so the strategic choices. For example, at micro level, the UK universities' different ranking or reputation affected their perception of institutional pressures. Organization with higher ranking were under greater micro institutional pressures in order to maintain and enhance reputation and hence willing to deploy great resources to local operations. Whereas those who have lower ranking passively responded to internationalization and turned to local partners for local operation responsibilities and help establish reputation in the global market. From another aspect, this also implies that not every organization possesses sufficient resources to comprehend a new institutional environment

(Cuervo-Cazurra, Maloney, & Manrakhan, 2007). Indeed, compared to non-equity modes, an equity JV offers hierarchical control (Williamson, 1985) over the local operation, under which strategic routines, particularly tacit organizational knowledge, from parent organization could be more effectively transferred to local operations, hence it was conducive to achieving internal legitimacy (Zhang, Zhao & Ge, 2016) (reputation enhancement and quality consistency). Second, interaction between Guanxi and formal institutions mediated organization's perceived institutional pressures. Interaction reduced the effect of unfamiliar hazards and the established Guanxi through which trust was nurtured helped reduce the relational hazards in EJVs and SBs (Hitt et al., 2016), but not in DBs where the perceived institutional pressures remained high while the Guanxi was absent.

Finally, the strategic choices of the arrangement of local operations were resulted from the perceived formal and informal institutional pressures. This study reveals how UK universities strategize in operations to respond to institutional pressures to succeed in China, namely, how things should be done, a missing value in the existing literature (Ang et al 2015; Brouthers, 2013; Cantewell, Dunning, & Lundan, 2010; Hitt, Li & Xu, 2016; Peng, 2003). Findings reveal that the UK universities standardized (to keep the authentic UK practices) or localized (to adapt to local institutions) local operations in terms of *core* (academic program, research, management) and *peripheral* services, as detailed in Table 3 and 4, to balance the perceived institutional pressures. Hitt, Li and Xu (2016) find that, when organizations perceived high external pressures to operate in a host market, they tend to take a lower ownership stake in exchange for external legitimacy, whereas a high ownership stake in response to strong internal isomorphic pressures. Our findings partially support this. However, a higher ownership structure, e.g. a JV, was not only for achieving internal legitimacy but also to meeting the local governments' preference and regulation, market, partners, and customers' tastes and demands. Our findings emphasize that the correct interpretation of institutional expectations is important. The UK organizations' unique social position (foreignness trait) enabled them to innovatively respond to institutional pressures (Roger and Edman, 2014), e.g. the maintained authentic UK education varied in different mode of operations was a selling point. Over-localized operations, e.g. little differentiation in core elements (academic programs, research and teaching) from local Chinese universities reduce the appeal of the UK HE service in China. This challenges the conventional thinking that local responsiveness leading to localization increases the appeal of a foreign product (Bartlet & Ghoshal, 1989; Prahalad & Doz, 1987). Strikingly, findings reveal that informal institutional differences could directly constrain the strategic choice of local operations, e.g. arts could not be internationalized through a DB franchise mode, which emphasizes the role played by informational institutions in internationalization. Hence, our findings responded to an unanswered question, that is, how the strategic choices could be achieved in operations under the perceived institutional pressures.

Overall, facing dynamic institutional environment changes in China, UK universities entered China by employing different entry strategies. Our study supports that, through creative organizational designs, some organizations can manage unfavourable institutional effects on their operation better than others (Lau et al., 2002). Findings emphasize the importance of developing organization's institutional capability (Oliver, 1997), which will not only increase organizations' strategic choice, but also managing institutional changes, e.g. visa policy changes, the Chinese government's audit over all existing China-foreign cooperative projects, in order to succeed in foreign operations.

6. Conclusion

Our study focuses on how the interaction of formal and informal institutions affects organization's perceived institutional pressures, in return, determines their strategic choices in internationalization. Based on evidence from 10 UK universities' international operations in China, our study enhances the institution theories (North (1990) and contributes to the IB research by bringing informal institutions to the forefront, and particularly, looking at how the interaction between informal institutions and formal institutions, that reveals intricacies of institutional environment, affects organization's perceived institutional pressures, and hence determines their strategic choices in internationalization. Our study emphasizes the importance of the perceived institutional environment that influences organization decisions. More importantly, our research reveals how organizations strategize in operations to respond to institutional pressures to succeed in internationalization. These findings offer practical guidance for organizations in internationalization to deal with the different institutional pressures when making decisions on why, how and what to standardize or localize in the local operations.

References

Abdi, M., & Aulakh, P.S. (2012). Do country-level institutional frameworks and inter-firm governance arrangements substitute or complement in international business relationships? *Journal of International Business Studies*, 43, 477-497.

Ahlstrom, D. & Bruton, G.D. (2010). Rapid institutional shifts and the co-evolution of entrepreneurial firms in transition economies, *Entrepreneurship Theory and Practice*, 34 (3), 531–54.

Ang, S. H., Benischke, M. H. & Doh, J. (2015). The interactions of institutions on foreign market entry mode, S*trategic Management Journal,* 36, 1536-1553.

Aragon-Correa, A. & Sharma, S. (2003). A contingent resource-based view of proactive corporate environmental strategy, *Academy of Management Review*, 28 (1), 71-88.

Bartlett, C. A. & Ghoshal, S. (1989). *Managing cross borders: the transnational solution*. Boston, MA: Harvard Business School Press.

Barney, J. B. (2001). Is the resource-based "view" a useful perspective for strategic management research? Yes. *Academy of Management Review*, 26: 41-56.

Boisot, M. & Child, J. (1996) From fiefs to clans and network capitalism: explaining China's emerging economic order. *Administrative Science Quarterly* 41(4): 600–28.

Brouthers, K. D. (2013). A retrospective: institutional, cultural, transaction cost influences on entry mode choice and performance. *Journal of International Business Studies,* 44 (1): 14-22.

Brouthers, K. D. & Hennart J-F. (2007). Boundaries of the firm: insights from international entry mode research. *Journal of Management,* 33: 395-425.

Cantewell, J., Dunning, J.H. & Lundan, S.M. (2010). An evolutionary approach to understanding internal business activity: the co-evolution of MNEs and the institutional environment, *Journal of International Business Studies*, 41, 567–586.

Chang, K. (2011). A path to understanding guanxi in china's transitional economy: variations on network behavior. *Sociological Theory*, 29 (4): 315-339.

Chang, YC., Kao, MS., Kuo, A. & Chiu, CF. (2012). How cultural distance influences entry mode choice: The contingent role of host country's governance quality, *Journal of Business Research*, 65, 1160-1170.

Child, J. (1972). Organizational structure, environment and performance: the role of strategic choice, *Sociology*, 6, 1-22.

Child, J. (1997). Strategic choice in the analysis of action, structure, organizations and environment: retrospect and prospect, *Organization Studies, 18 (43), 43-76.*

Child, J., & Tse, D.K. (2001). China's Transition and its Implications for International Business. *Journal of International Business Studies*, 32(1), 5-21.

Cuervo-Cazurra, A., Maloney, M. M., & Manrakhan, S. (2007). Causes of the difficulties in internationalization. *Journal of International Business Studies*, 38(5):709–725.

Dunning, J. H. & Lundan, S. M. (2008). Institutions and the OLI paradigm of the multinational enterprise, *Asia Pacific Journal of Management*, 25, 573-593.

Garrido, E., Gomez, J. Maicas, J. P. & Orcos, R. (2014). The institution-based view of strategy: how measure it, *Business Research Quarterly*, 17, 82-101.

Helmke, G. & Levitsky, S. (2004). Informal institutions and comparative politics: a research agenda, *Perspectives on Politics*, 2 (4), 725-740.

Hennart, JF. and Slangen, A. HL. (2015). Yes, we really do need more entry mode studies! A commentary on Shaver, *Journal of International Business Studies*, 46, 114-122.

Hernandez, V. and Nieto, M. J. (2015). The effect of the magnitude and direction of institutional distance on the choice of international entry modes, *Journal of World Business*, 50, 122-132.

Hitt, M.A., Li, D. & Xu, K. (2016). International strategy: from local to global and beyond, *Journal of World Business*, 51, 58-73.

Hofstede, G. (1980). *Culture's consequences: international differences in work-related values*, Beverly Hills, CA: Sage.

Hofstede, G. (2010). The GLOBE debate: back to relevance. Journal of International Business Studies, 41 (8), 1339-1446.

Holmes, R. M., Miller, T., Hitt, M. A., & Salmador, M. P. (2013). The interrelationships among informal institutions, formal institutions, and inward foreign direct investment, *Journal of Management*, 39 (2), 531-566.

Horak, S.& Restel, K. (2016). A dynamic typology of informal institutions: learning from the case of Guanxi, *Management and Organization Review*, 12 (3), 525-546.

House, R.J., Hanges, P.J., Javidan, M. & Dorfman, P.W. (Eds.)(2004). *Leadership, culture and organizations: the GLOBE study of 62 societies*. Thousand Oaks, CA: Sage.

House, R. J., Hanges, P.J., Javidan, M., Dorfman, P.W. & Sully de Luque, M.(2006). A failure of scholarship: response to George Graen's critique of GLOBE. *Academic of Management Perspectives*, 20 (4), 102-114.

Lau, CM, Tse, D. K. & Zhou, N. (2002). Institutional forces and organizational culture in China: effects on change schemas, firm commitment and job satisfaction, *Journal of International Business Studies*, 33 (3), 533- 550.

Lauth, H. J. (200). Informal institutions and democracy, *Democratization*, 7 (4), 21-50.

Lekovic, V. (2011). Interaction of formal and informal institutions-impact on economic success, *Economics and Organizations*, 8 (4), 357-370.

Leung, K. (2008). Chinese culture, modernization, and international business, *International Business Review*, 17, 184-187.

Meyer, C. R. and Peng, M. W. (2005). Probing theoretically into Central and Eastern Europe: transactions, resources, and insititutions, *Journal of International Business Studies*, 36 (6), 600-621.

Meyer, K. E., Estrin, S., Sumon, B., Kumar, B.S. & Peng, M.W. (2009). Institutions, resources and entry strategies in emerging economies, *Strategic Management Journal*, 30 (1), 61-80.

Milliken, F.J. (1987). Three types of perceived uncertainty about the environment: state, effect, and response uncertainty, *Academy of Management Review*, 12 (1), 133-143.

North, D. C. (1990). *Institutions, institutional change, and economic performance.* Cambridge, MA: Harvard University Press.

North, D. C. (2005). *Understanding the process of economic change*. New Jersey, Princeton University Press.

Oliver, C. (1997). Sustainable competitive advantage: combining institutional and resource-based view, *Strategic Management Journal*, 18 (9), 697-713.

Owens, M., Palmer, M., & Zueva-Owens, A. (2013). Institutional forces in adoption of international joint ventures: empirical evidence from British retail multinationals. *International Business Review*, 22(5), 883–893.

Prahalad, C. K. and Doz, Y. L. (1987). *Multinational mission: balancing local demands and global vision*, New York: Macmillan.

Peng, M. W. (2003). Institutional transitions and strategic choice, *The Academy of Management Review*, 28 (2), 275-296.

Peng, M. W., Wang, D. Y., & Jiang, Y. (2008). An institutional-based view of international business strategy: a focus on emerging economies. *Journal of International Business Studies*, 39, 920-936.

Ra, W. (2008). The emergence of institution-based strategy of international business and the implications for U.S. multinational enterprises, *Journal of British and American Studies*, 19, 347-378.

Rodrigues, S. and Child, J. (2003). Co-evolution in an institutionalized environment. *Journal of Management, Studies*, 40, 2137–62.

Roxas, H., Lindsay, V., Ashill, N., & Victorio, A. (2008). Institutional analysis of strategic choice of micro, small, and medium enterprises: Development of a conceptual framework. Singapore Management Review, 30(2), 47-72.

Scott, W. R. (1995). *Institutions and organizations*. Thousand Oaks, CA: Sage.

Sercu, L. (2004). Assessing intercultural competence: a framework for systematic test development in foreign language education and beyond. Intercultural Education 15 (1): 73-89.

Wang, H. (2000). Informal institutions and foreign investment in China. *The Pacific Review*, 13 (4): 525-556.

Williamson, O. E. (1985). *The Economic Institutions of Capitalism*. New York: Free Press.

Xu, D. & Shenka, O. (2002). Institutional distance and the multinational enterprise

Academy of Management Review, 27 (4), 608-618.

Young, M.N., Tsai, T., Wang, X., Liu, S. & Ahlstrom, D. (2014). Strategy in emerging economies and the theory of the firm, *Asia Pacific Journal of Management*, 31, 331-354.

Zhang, Y., Zhao, W. & Ge, J. (2016). Institutional duality and political strategies of foreign-invested firms in an emerging economy, *Journal of World Business*, 51, 451-462.

Table 1. The Sample

	Equity joint ventures[1]		Co-operative joint ventures							
			Single-based		Dual-based					
					Franchise			Validation		
	EJV1	**EJV2**	**SB1**	**SB2**	**DB f1**	**DB f2**	**DB f3**	**DB v1**	**DB v2**	**DB v3**
Location (UK/China)	England	England	England	England	England	England	England	England	Scotland	England
	Ningbo	Suzhou	Beijing	Hangzhou	Beijing	Shenzhen	Beijing	Zhengzhou	Nanjing	Beijing
Year of initial negotiation	2003	2003	2003	2002	1996	2002	2002	1999	1999	2005
Year of 1st intake	2004	2006	2004	2003	2002	2002	1997	2000	2002	2006
UK university ranking[2]	16	34	39	101	89	105	Specialist college (in agriculture)	73	100	30
Chinese university ownership, ranking (inclusion in Project 211[3])	Private university (no)	State-owned 10 (yes)	State-owned 84 (yes)	State-owned 80 (yes)	State-owned 32 (yes)	State-owned 1 (research institute of a number one university) (yes)	State-owned Specialist university (in agriculture) (no)	State-owned 35 (yes)	State-owned 65 (yes)	State-owned 22 (yes)
Programs offered in China	Initially 4 UG business programs; increased to 44 in UG, PG, PhD, with 16 departments and schools	Initially 6 UG programs in technology, management and science; increased to 60, in UG, PG, PhD, with 14 departments and schools	2 UG programs in telecom and e-commerce no change	MSc in International Trade and Finance no change	Initially 3 UG business programs; increased to 6 UG in business and IT.	Initially 3 UG business programs; increased to 4 in business and IT	2 UG programs in business and food no change	Initially 2 PG business programs; increased to 3 in business terminated in 2007	2 PG IT programs terminated in 2007	2 UG programs in business and economics no change
Degree awarded	UK degree awarded in China		UK-Chinese dual degree awarded in	UK degree awarded in China	UK degree awarded in the UK			UK degree awarded in the UK		

			China		Dual degree for in-plan students[4]		Dual degree for in-plan students[4]			
Legal status	• Legal ownership • 50/50 owned by the UK and Chinese side • Approved by MoE • Legal person in 20??: Chinese		• Contract-based • Not a legal entity • Approved by MoE • Director in 20??: Chinese		• Contract-based • Not a legal entity • Approved by the UK, in-plan recruitment • Director in 20??: Chinese			• Contract-based • Not a legal entity • Director in 20??: Chinese		
								Initially approved by MOE		Approved by Chinese local overnment
Visa for students	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
Interviewees	• Pro-vice Chancellor (PVC), UK university • Assistant director (AD) for transnational education, UK university • Provost seconded to China (vice president, China campus) • Member of staff, seconded to China	• Deputy vice Chancellor (DVC), UK university • PVC, UK university (provost for the operation in China) • Director of planning (DoP), UK university • Head of project management (HoPM), UK university Academic secretary, UK university	• Head of department (HoD), UK university (**2** interviews) • Director of Offshore Operations, UK university • AD of Offshore Operations, UK university • President, from the Chinese university • Dean of international school, from the Chinese university	• PVC, UK university • Faculty International Manager, UK university • Manager of the joint program, from the Chinese university	• Associate Dean and Head of business system, UK university • Professor of information system, UK university • Director of academic programmes, UK university • Graduate student from 2002 group	• Associate Dean of department, UK university Senior Lecturer, UK university International Development Manager , UK university Head of China management centre, from the Chinese university	• Dean of external liaison, UK university • Program manager , UK university • Program manager of the joint program , from the Chinese university	• Director of international partnerships (**2** interviews), UK university • Academic staff-key coordinator, UK university • Dean of school of international education, from the Chinese university • Academic staff , UK university	• Director of academic programmes (**2** interviews) UK university • Vice-Chancellor International, UK university	• Senior lecturer in marketing , UK university • Director of international department, UK university • Dean of department, UK university • Vice-principal, UK university • Director, the dept. of international cooperation, from the Chinese university • Student1 • Student2

Notes: [1.] There were only two HE JVs in China, both with UK universities. Our sample was 100% of the population. [2.] University ranking (source is confidential for data protection purpose). [3.] Project 211 was launched by the Chinese Ministry of Education in 2008 to develop around 100 Chinese universities to a higher level in the 21st century. There were 107 universities involved, and received special developmental funds

from the central and local governments (Li & Yang, 2014). [4.] In-plan students were those that attended the national university entry exam (Gaokao), and hence within the recruitment quota set by the focal educational organizations.

Table 2. The formal institutional environment changes of China-foreign co-operations in higher education in China

Formal institutions	Interim provisions on Chinese-Foreign Cooperation in Running Schools (CFCRS), State Council	Regulations on CFCRS, State Council	The implementation measures for the regulation on CFCRS, Ministry of Education (MOE)	Opinions on some issues concerning CFCRS, MOE	The notification on further standardizing the system of CFCRS, MOE	CFCRS Supervision Information Platform was established, MOE	The notification on evaluating existing CFCRS, MOE	MOE started to approve new applications once a year and announced the result on the platform	Notice of the General Office of the MOE on strengthening the management and regulation of CFCRS	The MOE established a new office to evaluate the quality of existing joint programs	
Changed in	1995	2003	2004	2006	2007		2009	2010	2012	2013	2016 →
Key changes	• Attached importance to develop vocational education • Non-profit seeking	• Extending what? from vocational to higher education • Relaxing the restriction on profit-making	• Legitimizing EJV but also joint programs • Allowing reasonable economic returns	• Suspending approvals on joint programs • Requiring high quality foreign educational resources	All modes (EJVs and joint programs) requiring MOE approval	• Permitting on-line supervision • Providing more information to increase transparency	• MOE evaluating and assessing the quality of existing joint education institutions and programs • Closing down [low quality?] unqualified joint institutions and programs	MOE removed the suspension on joint programs	More standardized management ????	Increased quality control management ????	
Characteristics of the market	• Rapid expansion of what? • Shifting from informal, incidental, laissez-faire stage to State-guided market		Systematic, structured, regulated but turbulent market					More standardized, strictly regulated and relatively stable market			
Permitted operational modes	DB	EJV SB DB		How about EJV and SB? DB				EJV SB DB			

Table 3. Research Findings

<table>
<tr><th colspan="2" rowspan="3">Cases
Local operations</th><th colspan="2">Equity</th><th colspan="7">Non equity</th></tr>
<tr><th colspan="2">Joint venture</th><th colspan="2">Single-based</th><th colspan="5">Dual-based</th></tr>
<tr><th colspan="3">Franchise</th><th colspan="3">Validation</th></tr>
<tr><th>JV1</th><th>JV2</th><th>SB1</th><th>SB2</th><th>DB f1</th><th>DB f2</th><th>DB f3</th><th>DB v1</th><th>DB v2</th><th>DB v3</th></tr>
<tr><td rowspan="2">Academic Programs</td><td>Standardized</td><td colspan="2">• Teaching: 100% by the UK and internationally recruited staff in Years 2-4
• Year 2-4: UK degree program
• Teaching language: English
• Quality standard and assessment</td><td colspan="2">• Teaching: 50% by fly-in UK-based staff in a block structure
• Quality standard
• Teaching language: English
• on-line academic resources
• Y2-4 UG program entirely taught in China
• Teaching style: Year 2-4: UK-dominated
• One-year PG program entirely taught in China</td><td colspan="3">• A UK degree program is broken into 2 parts: 2 years in China, 1 year in the UK
• The part taught in China is identical with that in the UK
• Teaching material: UK identical
• Quality standard, assessment
• High tacit programs, e.g. art cannot be localized
• Training shadowing</td><td colspan="3">• Degree: a UK degree awarded in the UK
• Validate part of a degree program as equivalent to Year 1 UK program</td></tr>
<tr><td>Localized</td><td colspan="2">• Teaching in Year 1: 100% by China recruited staff
• Adjusted as 4-year programs: Year 1- modules to satisfy Chinese HE system</td><td colspan="2">Teaching: 50% by local partner
• Chinese university issues a degree
• Added management and law modules?
• Year 1: modules to satisfy Chinese HE system</td><td colspan="3">Teaching: 100% by local tutors
Teaching language: mixed
A Chinese degree is issued for qualified students
A Chinese degree is issued for qualified students</td><td colspan="3">• A UK degree program is broken into 2 parts: 2 years in China, equivalent to the first year of a UK degree program, followed by 2 years in the UK
• Quality standard, assessment
• The part taught in China: designed by the Chinese university
• Teaching material: designed locally
• Taught: by local tutors</td></tr>
</table>

Research	**Standardized**	• Research expertise transferred to China • Research centres • Joint international conferences, funding application, publications • PhD: 2 years China + 1 year UK		No formal research links		No research	No research
	Localized	Research areas: air pollution, sustainable energy, innovative industry technology	Research areas: Nano- tech, new materials, 4 G wireless, metabolic syndrome drug research	No formal research collaboration	Informal personal links: research project in international trade, joint fund application and joint publication	DB f2: one member of staff in the UK used the operation in China as a case for his own research	
Management	**Standardized**	• Management expertise on running a university transferred to China • Board of JV: some senior members from the UK • Key positions including HR, financial mgt, quality control, administration are filled by the UK side • First president (JV1), first vice-president (JV2) • Faculty: 1/3: seconded from the UK , 1/3: internationally recruited based on the UK standard		• Management expertise on running one or two programs transferred to China • Joint committees • UK academic management system • UK management mechanisms: examination board, external examiner, first and second markers, student staff liaison committees and private tutors • Students had UK university ID and email accounts • Income: tuitions fees were split between two sides • Daily management: UK managers are available on-line		• Joint committees, met once a year • UK academic management system applied mainly in assessment • UK coordinators pay random visits to help resolve academic problems • Students are UK university's students	• No joint committees UK coordinators visit China to interview students and issue offers only

	Localized	• Non-academic operation management • Faculty: 1/3 from local partner	Daily on-site management Non-academic aspect of operation	• Daily on-site management	• Daily on-site management
Peripheral Services	**Standardized**	• Campus: mirror the UK (C10); built based the UK briefings (C9) • On-line UK library: available • Career service: on-line career information access • Exchange opportunity: yes • International students: targeting at 25% (C10), 10% (C9) • Campus rules: UK dominated for academic issues	• Library: UK provided English text books • On-line UK library: available • Exchange program: summer short term stay in the UK Exchange program: one semester in the UK	• On-line UK library: available	Students are the UK university's students when they move to the UK On-line UK library: no
	Localized	• Dining halls, food • Accommodation • Other non-academic activities	• Campus: existing Chinese partner's • Campus rules: Chinese university rules for all students • Career service: offered by the Chinese side for all students on campus • Food, accommodation: local style, same as all other students on campus	• Campus: existing Chinese partner's • Campus rules: Chinese university rules for all students • Career service: offered by the Chinese side for all students on campus • Food, accommodation: local style	• Campus: existing Chinese partner's university • Students are the UK university's candidates • Food, accommodation: local style • Career service: offered by the Chinese side for all students on campus • Campus rules: Chinese university rules for all students

Figure 1. The data analysis structure

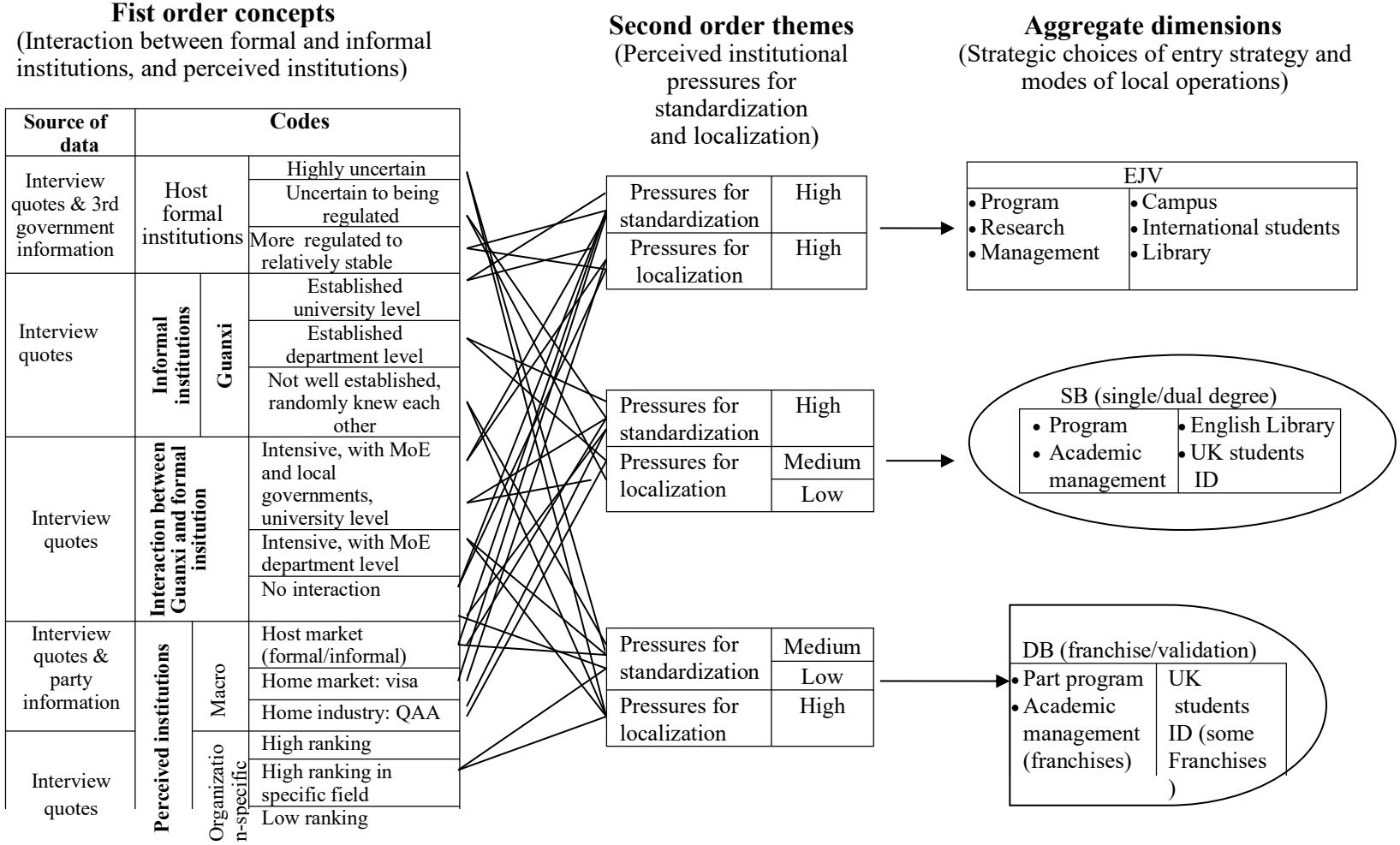
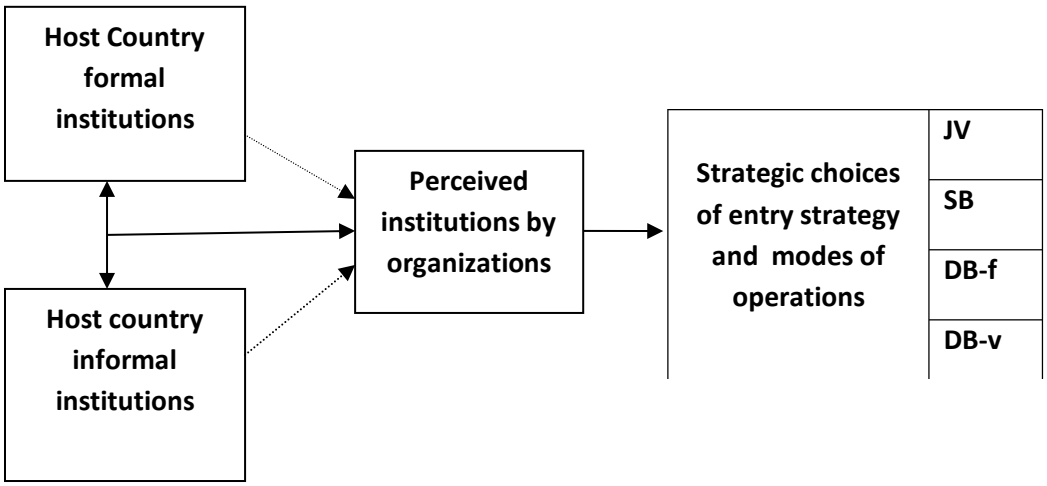


Table 4. Perceived institutions and strategic choices of local operations

Cases / Perceived institutions & strategic choice	C10	C9	C8	C7	C6	C5	C4	C3	C2	C1
Formal institutions	• Highly uncertain and complicated • Modes of entry were not clearly stated (except C10) • *1995 Interim Provision*						Changing from highly uncertain to being regulated • *Allowed modes of entry: EJV* • *SB: not specified* • *2003Regulations* • *2004 Measures* (not issued)		Being more regulated and relatively stable • *2003 Regulations* • *2004 Measures* (not issued)	• *2003 Regulations (not issued)*
Informal institutions	• Norms, mental models: heavily influenced by the closed and planned economy • Newly opened market to the world, less understanding of Western culture and UK HE • Guanxi: not established, both sides knew each other randomly introduced by past employees or agents						• Norms, mental models: changing to embrace a more market-oriented economy • Opening up, better understanding of Western culture and education • Guanxi: well established, at department level through Deans		• Norms, mental models: market economy-oriented and with international outlook Embracing different cultures and rationally accepting Western education Guanxi: well established, at the university level, through senior managers	
Interaction of formal and informal institutions	No interaction						• Intensive • Chinese partner leveraged Guanxi to interact with department leaders of MoE • Break barriers for a SB mode • Drove favourable formal institutional changes on a SB mode of operation		• Intensive • Key actors who knitted Guanxi interacted with MoE and local governments • Break barriers for an EJV mode • Drove favourable formal institutional changes on an EJV mode of operation	
Perceived institutions	Extremely high						Very high		High to manageable	
	• Local government's regulation changes, customer and market's needs and preferences changes • UK Visa policy changes • QAA: quality insurance on part of a UK program taught in China						• Local government's regulation and preferences, different customer and market needs, local partner's expectation • QAA: quality insurance on one or two UK programs entirely taught in China		• Local government's regulation and preferences, different customer and market needs, local partner's expectation, local industries' expectation, differences in business operation system, culture, management style • QAA: quality insurance on UK HE over a full-fledged university	
	• Organization-specific: low ranking, survivability, cost pressure						Organization-specific: reputation in specific field, department level initiative, difficult in organizational changes, cost pressure		Organization-specific: high ranking, reputation enhancement, cost pressure	

Entry strategy		DB validation	DB franchise	SB	EJV
Strategic choice of local operations	**Ownership structure**	Non-equity contract-based		Non-equity contract-based	• Equity, 50% ownership • Independent legal entity
	Activity	• Reproduce part of a UK standardized or a UK equivalent program • Orienting to local customers		• Reproduce UK standardized 1 or 2 programs • Orienting to local, UK or regional customers	• Standardize where feasible and localize where appropriate • Orienting to local and global customers
	Role of local operations	Income generator		Popular model developer	Centres of excellence
	Parent-subsidiary relationship	• Loosely-coupled; • Parent organization depends on local partners' resources in operation		• Tightly coupled • Subsidiary relies on parent organization's inputs heavily	Integrated and interdependent
	Key resource flow	• Explicit academic knowledge flows from parent to subsidiary (DB franchise) at program level • Limited flow between • parent and subsidiaries (DB validation)		• Tacit and explicit academic knowledge flow from parent to subsidiaries at department level. • Experience sharing and model replication in other markets	• Tacit organizational knowledge flows • Bi-or multi-directional Large flow (tacit and explicit) between parent and subsidiary and among subsidiaries
	Location of value chain activity	Part program value chain exists in the host country		Full program value chain exists in the host country	Full university value chain exists in host country
	Management control	• Centralized at the corporate level: academic control (standardized teaching material); decentralized to subsidiary: daily operation (DB franchise) Decentralized to the subsidiary (DB validation)		• Centralized at the corporate level: academic control (standardized system and core teaching) • Decentralized to the subsidiary: daily operation control	• Centralized at corporate level: full academic control • Joint control with local partner: daily operation
	Cost of local operation	Low		Medium	Extremely high
	Parent organization's strategic priorities	Cost efficiency by using a cheap model to reach a wider range of foreign markets		Exploiting parent and local partner's program reputation to achieve economies of scale by sharing experience and replicating the model in other foreign markets	Integrating learning through balanced standardization and localization into parent organization's new core competences

Figure 2 Institutions and strategic choices in internationalization: UK universities in China



Ahlstrom, D. & Bruton, G. D. 2010. Rapid Institutional Shifts and the Co-evolution of Entrepreneurial Firms in Transition Economies. *Entrepreneurship Theory and Practice*, 34(3): 531-54.

Ang, S. H., Benischke, M. H., & Doh, J. P. 2015. The interactions of institutions on foreign market entry mode. *Strategic Management Journal*, 36(10): 1536-53.

Aragón-Correa, J. A. & Sharma, S. 2003. A Contingent Resource-Based View of Proactive Corporate Environmental Strategy. *Academy of Management Review*, 28(1): 71-88.

Brouthers, K. D. 2013. A retrospective on: Institutional, cultural and transaction cost influences on entry mode choice and performance. *Journal of International Business Studies*, 44(1): 14-22.

Cantwell, J., Dunning, J. H., & Lundan, S. M. 2010. An evolutionary approach to understanding international business activity: The co-evolution of MNEs and the institutional environment. *Journal of International Business Studies*, 41(4): 567-86.

Helmke, G. & Levitsky, S. 2004. Informal Institutions and Comparative Politics: A Research Agenda. *Perspectives on Politics*, 2(4): 725-40.

Hitt, M. A., Li, D., & Xu, K. 2016. International strategy: From local to global and beyond. *Journal of World Business*, 51(1): 58-73.

Hitt, M. A. & Xu, K. 2015. The transformation of China: Effects of the institutional environment on business actions. *Long Range Planning*(forthcoming).

Holmes, R. M., Miller, T., Hitt, M. A., & Salmador, M. P. 2013. The Interrelationships Among Informal Institutions, Formal Institutions, and Inward Foreign Direct Investment. *Journal of Management*, 39(2): 531-66.

Horak, S. & Restel, K. 2016. A Dynamic Typology of Informal Institutions: Learning from the Case of Guanxi. *Management and Organization Review*, 12(3): 525-46.

Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. 2000. Strategy in emerging economies. *Academy of Management Journal*, 43(3): 249-67.

Khanna, T. & Palepu, K. G. 2010. *Winning in Emerging Markets: A Road Map for Strategy and Execution*. Brighton, Massachusetts: Harvard Business Publishing.

Kostova, T., Roth, K., & Dacin, M. T. 2008. Institutional theory in the study of multinational corporations: A critique and new directions. *Academy of Management Review*, 33(4): 994-1006.

Milliken, F. J. 1987. Three Types of Perceived Uncertainty About the Environment: State, Effect, and Response Uncertainty. *Academy of Management Review*, 12(1): 133-43.
North, D. C. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge, MA: Cambridge University Press.
Peng, M. W. 2003. Institutional Transitions and Strategic Choices. *The Academy of Management Review*, 28(2): 275-96.
Peng, M. W., Wang, D. Y. L., & Jiang, Y. 2008. An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, 39(5): 920-36.
Roxas, H. B., Lindsay, V., Ashill, N., & Victorio, A. 2008. Institutional analysis of strategic choice of micro, small, and medium enterprises : development of a conceptual framework. *Singapore Management Review*, 30(2): 47-72.
Xin, K. R. & Pearce, J. L. 1996. Guanxi: Connections as Substitutes for Formal Institutional Support. *The Academy of Management Journal*, 39(6): 1641-58.